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Western Canada's Monthly Economic Bulletin

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Monthly Highlights

Canadian employment rose modestly in August after a significant decline in July. While far from spectacular, employment growth for the first eight months of the year has been quite a bit better in the West (1.1%) than in the rest of Canada (0.2%)

The rate of increase in consumer prices in July was the highest Canada has experienced since early 2003, with the price of gasoline being the most important factor. The rate of inflation

in BC hit 3.3% in July, almost double the province's average rate for 2007.

New home construction is down across the West, especially in Alberta where the number of housing starts for the month of August was down 60% compared to 12 months earlier.

Total building permits in Saskatchewan—residential and non-residential—through July of this year are 47.1% higher than the same period in 2007. On the other

hand, building permits are down 8.8% in Alberta and 9.7% in BC.

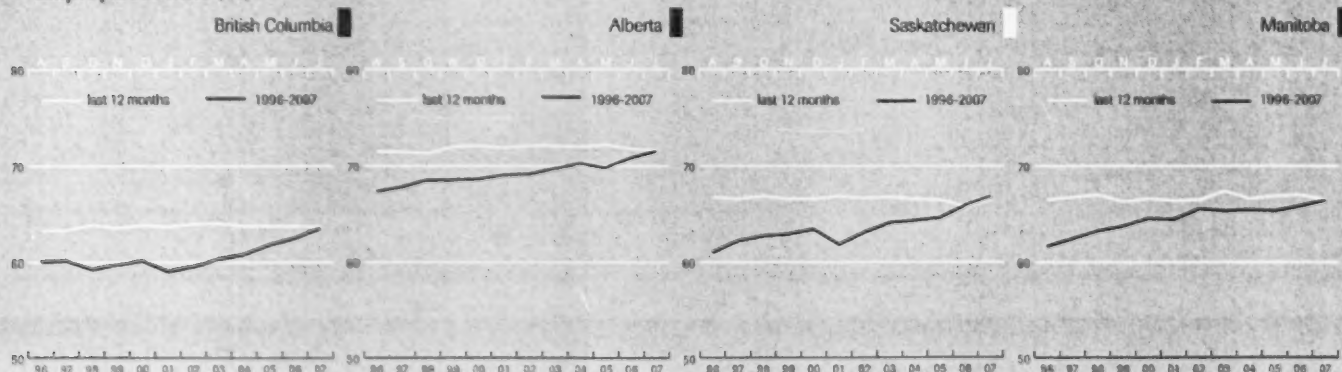
Retail sales growth in Saskatchewan and Manitoba for the first half of the year has been well above the national average, while BC and Alberta have experienced slower growth.

From May to June, manufacturing sales increased in the Prairie provinces while BC experienced a decline after three months of increases.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,325.1	2,006.7	511.5	606.0	17,099.4	August
% change, 3-month ma, yoy	2.7	2.4	2.3	2.0	1.5	
Unemployment rate (SA, %)	4.3	3.5	4.5	3.9	6.1	August
Participation rate (SA, %)	66.5	74.2	69.6	69.2	67.5	August
Average weekly earnings (SA, \$)	769.71	872.96	752.72	730.54	789.23	June
% change, 3-month ma, yoy	1.9	5.1	4.7	3.4	2.8	
CPI inflation, annual (%)	3.3	3.5	3.2	2.6	3.4	July
Building permits: residential (SA, \$ millions)	601.0	474.5	98.6	117.3	3,696.9	July
% change, 3-month ma, yoy	-23.5	-36.9	48.2	18.1	-7.4	
Building permits: non-residential (SA, \$ millions)	259.6	666.1	187.8	76.2	2,733.9	July
% change, 3-month ma, yoy	-2.1	-7.2	38.1	-10.2	1.2	
Housing starts (SAAR, 000s)	33.4	22.9	5.3	5.4	211.0	August
% change, 3-month ma, yoy	6.3	45.4	1.9	15.8	9.6	
Retail trade (SA, \$ millions)	4,844	5,180	1,214	1,260	35,951	June
% change, 3-month ma, yoy	2.3	0.5	13.0	7.9	3.7	
Wholesale trade (SA, \$ millions)	4,430	5,567	1,755	1,096	45,151	June
% change, 3-month ma, yoy	0.3	12.5	43.4	2.0	3.2	
Manufacturing sales (SA, \$ millions)	3,379	6,334	1,123	1,369	52,492	June
% change, 3-month ma, yoy	-7.9	7.7	22.7	1.8	-1.2	

Source: Statistics Canada. yoy—year over year; ma—moving average; SA—seasonally adjusted; SAAR—seasonally adjusted at annual rates

Employment Rate (%)



Did you know?

➡ Canada had one of the steepest declines in household savings rates for OECD countries between 1993 and 2005, with the net savings rate falling from 12.1% to 1.2%.

➡ With only three people per square kilometer, Canada has the fourth lowest population density in the world.

➡ Alberta is one of two provinces to border only one US state. The other is New Brunswick.

➡ Almost two-thirds of the Canada population lives within 10% of the country's total land area.

➡ Over half of the West's visible minority population lives in Vancouver.

➡ In 2006, roughly 3% of adults aged between 25 and 64—almost 550,000 people—did not live in the same province or territory as they had five years earlier.

City in Profile: Red Deer, Alberta

Red Deer is Alberta's third largest city, located midway between the province's two largest urban centres. The Calgary-Edmonton Corridor in which Red Deer is located has been called 'Canada's Economic Capital' due to the high levels of economic growth and GDP per capita in the region. The city's central location between Edmonton and Calgary makes it the only city on the prairies with a potential market of two million people within a 160 kilometre radius. Red Deer's population as of 2007 was 85,705 and its rate of population growth between 2001 and 2007 was more than twice the provincial growth rate.

Economic activity in Red Deer and the surrounding region includes petroleum exploration, manufacturing, retail and service, and hospitality. The largest manufacturing sector in the area is metal fabrication, followed by wood cabinetry and food processing. One of the largest petrochemical clusters in North America is found just 15 km east of Red Deer; the NOVA Chemicals' Joffre site produces both ethylene and polyethylene. Other major private sector firms in the area include DOW Chemicals (ethylene glycol), Olymel (pork), and Traveleire Trailer Ltd. (recreational vehicles). Red Deer was rated as the best community in Alberta in which to do business by Alberta Venture magazine in 2008.

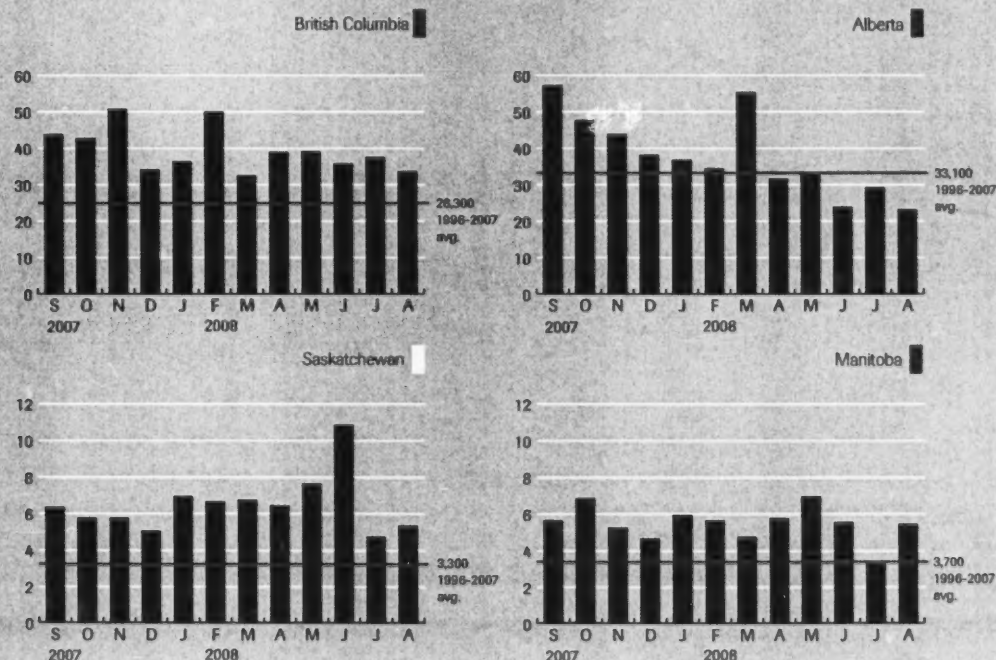


BEHIND THE NUMBERS

A recent headline in Alberta proclaimed "Housing starts dive 60%: single-detached construction at lowest level since 1990." (Calgary Herald, September 10, 2008). Both of the facts cited in the headline are accurate—the first part of the headline refers to the fact that housing starts in August of this year were 60% lower than 12 months ago.

When large swings in economic indicators occur, it is worthwhile to look at the numbers in context. The figures below show the level of housing starts over the past 12 months compared to the average for the past 12 years. In the case of Alberta, the housing market has indeed cooled off. However, while the number of housing starts fell 60%, the figure was only slightly below the average for the past 12 years.

Housing Starts, Latest 12 months vs 12 year average (thousands, seasonally-adjusted at annual rates)



Source: Statistics Canada



City Hall in Red Deer, Alberta

IT'S BACK TO SCHOOL TIME: A LOOK AT RATES OF HIGH SCHOOL COMPLETION

Kids are going back to school and summer's winding down. Enrolments in elementary and secondary schools are down across Canada, with the exception of Alberta, where the enrolment rate increased by 1% between 1999-2000 and 2005-2006. Declining enrolment is in line with a falling birth rate and fewer school age children in Canada. The increase in numbers seen in Alberta can be attributed to the large number of people that moved to Alberta in recent years to take advantage of the booming economy and higher wages.

But of those hitting the books this year, how many will actually graduate?

The importance of education is undeniable. A highly educated workforce is a must for success in the knowledge economy, where skilled workers are a hot commodity and have contributed to the need for a more educated workforce. Between 1990 and 2007, the proportion of employed people in western Canada with post-secondary education increased from 39.8% to 53.5%, while the percentage of workers with less than high school fell from 23.9% to 13.4%.

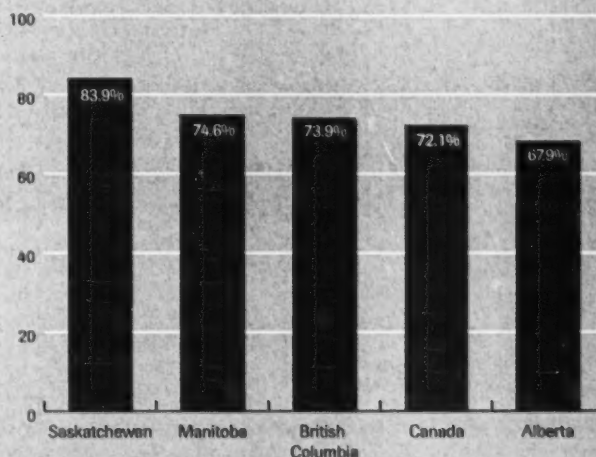
There are large differences across the provinces in terms of how many students graduate from high school. Based on 2005-2006 data (the most recent available), Saskatchewan the highest graduation rate in the West at 84%, while Alberta lags behind, sitting below the national average at 68% (see figure).

So, what can explain the differences in completion rates? The same economic opportunity that is luring people to Alberta and increasing primary and secondary school enrolment rates is also drawing high school students out of school and into the workforce. In other words, the opportunity cost of staying in school is simply too high. In contrast, the completion rate in PEI, the highest in Canada, was 86% in 2005-2006. This has been explained using the same logic in reverse; the opportunity simply isn't there to lure students out of school.

High school drop-outs in Alberta are more likely to be employed than in other provinces. Nationwide, the unemployment rate in 2007 for those without a high school diploma was 12.0%, well above the rate of 3.7% for those with a university degree and almost twice the rate of 6.1% for high school graduates. In Alberta however, the unemployment rate for those without a high school diploma was quite a bit lower at 7.2%.

The issue of high school completion rates in Alberta has received a great deal of attention from the provincial government. In the course of measuring the performance of school districts across Alberta, the province has been tracking the returning rates for high school drop-outs. In 2006-2007, one in five drop-outs returned to complete their diploma. Tracking the progress of grade 10 students reveals that over a period of 5 years, nearly 80% will have completed high school.

High School Graduation Rate, 2005-06 (%)



Source: Statistics Canada

Infrastructure Finance Lessons from Bob the Builder

Casey G. Vander Ploeg, Senior Policy Analyst, Canada West Foundation

Once upon a time, in a city far away, all the people were clamouring for a new urban expressway. The old road—full of potholes and always congested—caused much misery and suffering among the people.

"We should talk to Bob the Builder and get him to build us a new road," the people said. And so they did. Bob went to talk to the mayor.

"We don't have money for that, Bob," said the mayor. "Property tax hikes are unpopular and the province won't cough up the grants."

So Bob told all the people they couldn't afford a new expressway. At that, they all cried.

But then something wonderful happened! At a highly publicized press conference, the mayor said that Bob and his buddies won the right through an RFP process to form a special purpose vehicle (SPV) in partnership with the city that would be at the centre of a P3 deal to build a new expressway through a DFBOOT concession contract.

"Huh?" murmured the people.

Bob the Builder explained that a new expressway needs three things: financing, funding, and someone to deliver it. Bob said the expressway would be financed with an equity investment by his buddies in the SPV along with bonds issued in international capital markets. These revenue bonds would be funded by future toll revenues. The designer, financier, builder, owner, and operator of the asset will be the SPV, which will deliver the infrastructure.

Because the SPV is the owner of the asset, the debt will go on the SPV's books, not the city's books. After an agreed upon return for the equity investment has been received, and the bonds fully repaid, the expressway will transfer to the city.

"It's the best way to do this," said Bob. "The city is broke. We have to innovate. The expressway is a great candidate for P3. And not one tax dollar is needed." With that, the people cheered!

Bob explained that a new expressway for the city would be a very large project. Because a lot of stuff was needed to build the road, it would require significant upfront capital. But, the complex web of supports, rails, signs, bridges, interchanges, and lighting for the expressway would also have a long asset life.

"We should borrow to do this," said Bob. "If we wait and save, it'll never get done. What's more, inflation will make the project more expensive each year that we wait. Sure, we'll have to pay interest on the debt, but a lot of that interest will be offset by the price inflation that we

avoid. What's more, it's fair. The expressway will last a long time. Our kids and grandkids will be using it. So will others who move into the city after it's built. Borrowing and then paying it back over time is one way they can help pay too." With that, the people agreed.

Bob went on to explain that because the city had grown so much and there were so many wonderful things to see and do, there would be strong demand for the new route. Bob had also read about intelligent transportation systems (ITS) and electronic toll collection (ETC) that would allow individual drivers to be identified when they used the expressway. "From a demand and user point of view," intoned Bob, "the expressway is a marketable asset and can be funded through user fees."

But now some of the people got angry at Bob. "We already pay taxes and shouldn't have to pay fees," they said.

"Well," Bob answered, "the taxes you pay are not paying for this because it's a new asset and it needs new funding. Either your taxes go up, you suffer with the old road, or you pay fees."

"But before you answer, consider this," challenged Bob. The expressway is a hard economic infrastructure asset. While it will benefit the entire city, it will also benefit people individually, particularly the businesses that export the little widgets made in our shops. It will also benefit the travelers and commuters who come into the city but pay their property taxes somewhere else. User fees are fair because they allow all those who benefit from the expressway to pay for it."

"But the roads have always been free," someone piped up.

"Not so, said Bob. "Nothing is free. If you ever get something for which you did not pay, then someone else has paid for you. Those who can't afford the toll or do not want to pay it can continue using the old road or ride the bus," said Bob. And, the SPV has promised the Mayor that some of the toll revenue will actually be used to fill the potholes in the old road, too." Because it was clear that everyone would be better off, all the people agreed to the user fees.

Bob added that the tolls would be a volumetric charge. The tolls would go up or down depending on how many cars were on the road to ensure it never became congested. Those who want to save on the tolls can do so by driving at non-peak hours.

Two years later, the people got a new expressway. And they drove happily-ever-after.

"Way to go Bob," said all the people.

Bob replied: "Can we build it? Yes we can!"

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